Is your pension scheme a Brexit road-block?

Pensions and Investment Advisory

Your Brexit plans are underway – but is there a risk your pension scheme could block them? And how robust is your pension scheme's investment strategy?

Balance sheet risk

You may be managing Brexit-related risk effectively in your core business. But what about your pensions position?

Have you considered how volatility in the financial markets would affect pension liabilities?

The vote to leave has already impacted currencies, central bank polices and stock market indices. What will a deal - or no-deal - mean for investment markets?

A restructuring roadblock

Your Brexit plan may have involved taking tough decisions, acting on imperfect information, as the potential disruption of March 2019 approached.

What if you now discover that your plans have unexpected implications for pension?

Don't get caught out. Consider the pensions issues as early as you can.

Trustee concerns

What questions are you likely to face from pension trustees?

Plan for early engagement with the trustees and the Pensions Regulator. Be on top of any Brexit-related developments.

With all the other uncertainty you face, could it be worth pushing for early completion of scheduled negotiations on cash funding to provide cash flow certainty?

Handling investment risk Pension portfolios need to be able to weather a range of Brexit outcomes. Have you identified your investment risk hotspots and how your portfolio would respond to different scenarios? Can you capture any opportunities that arise?
Have you evaluated the potential impact for the **employer covenant**? What levers are available to you to manage this?

How we can help

Risk review

Our experts can assess your existing Brexit plans and flag possible pensions implications of different business scenarios, such as loss of revenue or increased costs. They can advise on mitigation or creating alternative solutions.

Protecting your portfolios

Revisit your scheme's investment policy, to right-size downside risks. Check the geographic diversity to help mitigate exposure.

Risk monitoring

We can provide tools for you to monitor the ongoing exposure as we enter the most volatile period of the Brexit process.

Track financial markets and currencies to understand the impact on your scheme and any implications.

Risk reduction

Identify measures to reduce exposure such as hedging or insurance strategies

Trustee negotiations

Engage with trustees and/or the Pensions Regulator on material post-Brexit impacts. Consider pushing for early completion of scheduled negotiations on cash funding to provide cash flow certainty.

Identifying opportunity

Consider mechanisms to capture any upside from market volatility and ensure that governance processes can support opportunism.

Understand the business impact

We have assessed the employer covenant impact of more than 400 corporate events. This landscape isn't always clear or intuitive. We understand how trustee advisors and the Pensions Regulator look at issues such as loss of revenue, increased costs, reduced UK operations, impact on assets and cash flows, transfer pricing adjustments, etc. We can help you understand, quantify and explain the covenant impact of such issues.

The benefits of acting promptly on pensions: three case studies

Freeing up cash flow

Brexit scenarios can restrict free cash (e.g. reduced finance supply, delays getting products to market).

Pension schemes may offer a route to improved liquidity. However, this requires careful positioning to respect key regulations.

Our client sought to reduce near-term pension contributions. Our role was to develop the proposal and accompanying pensions rationale.

We helped them agree a two-year reduction in contributions. This would help ensure that a critical infrastructure transformation could be accelerated. Showing the benefits for longer term scheme support was key.

The full solution, involving a workable two-year dividend limit and higher committed payments from year 3, was negotiated with the pension trustees and the Pensions Regulator.

Exiting UK: pension impact

Another client had to address a weakening business case for continuing UK operations. Its response was to sell part of the UK business. The company had material pension liabilities. UK law protects pension scheme members so the client needed to actively address this during the sale process.

We brought restructuring and pensions experts together to outline the options: pay the debt in cash (quick but costly), reshape the scheme or assign the obligation to another part of the business. We helped the client present a blended option which trustees approved. The deal completed on time

By acting early, our client avoided a common pitfall: rushed, costly or sub-optimal deal outcomes. Where Brexit could trigger a UK downsizing or exit, our pensions experts can help manage the impacts. We can do so without alerting pension trustees (and other staff) to worrying contingency plans.

Financial risk review

After the EU referendum, our client realised that its UK pension schemes posed financial risks to business in periods of market volatility. The size of these risks was unclear – and also how they correlated with the company's wider exposures.

We ran our risk models and reported the economic exposures and the steps the pension trustees had already taken to manage them.

We found three main risks – high UK price inflation, exposure to falling equity prices and rising UK life expectancy. We showed options to hedge or reduce these risks.

We also demonstrated that some risks (e.g. exchange rate movements) would not have material pension impacts and that the schemes had excess liquid assets - a buying advantage if market liquidity dries up.

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John has worked side by side with clients on their potential Brexit risk since late 2015. He's an expert in assessing all forms of pension risk, highlighting their interactions and working with experts from across KPMG to develop solutions.

Whether Brexit means adapting your UK business or coping with increased pension deficits, John has experience of advance planning for relevant scenarios and building the right solutions to present to pension trustees and the Regulator.

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Ajith's experience in navigating the 2008 global financial crisis as part of the portfolio management team of a big life insurer has given him unique experience and insights in helping institutional investors prepare for Brexit.

He has over 15 years of experience in the industry and his current role as the head of research in our investment advisory practice puts him a central position to monitor and understand the impact of Brexit across all major asset classes.

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With 20 years of business restructuring experience - frequently at global and pan-European level - Dave knows how to expertly steer trustees and sponsors through reorganisations, transactions and corporate activity.

Central to this is his ability to create solutions that not only meet the goals and needs of the business, but also reduce or avoid any impact on the pension scheme. Engage early, in his view, and you can often achieve 'win win' solutions.

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